

Village of Pentwater
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2008

Village of Pentwater
LIST OF ELECTED AND APPOINTED OFFICIALS
March 31, 2008

ELECTED OFFICIALS

Village Council President Juanita Pierman

Village Council Alvin Docter
Marilyn Sullivan
Jared Griffis
James Alfredson
Don Palmer
Jay Bryan

APPOINTED OFFICIALS

Interim Village Manager Jim Miller

Village Clerk/Treasurer Frances A. Tomczak

Deputy Village Clerk/Treasurer Sarah Tarnowski

Village of Pentwater

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Village of Pentwater

Management's Discussion and Analysis

As management of the Village of Pentwater, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village's for the fiscal year ended March 31, 2008. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$7,121,318 and total liabilities of \$2,572,883 leaving net assets of \$4,548,435, an increase of 3% in the Village's overall net assets.
- Of the total \$4,548,435 in net assets, the Village may use \$1,413,229 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$2,247,206, made up of governmental revenues of \$1,547,312 and business-type revenues of \$699,894.
- Total expenses for all of the Village's programs were \$2,095,408. Of that total, the governmental expenses were \$1,489,356, and the business-type expenses were \$606,052.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets presents information of all the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the Village include the water, sewer and marina services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains several governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Fire Fund, which are considered to be major funds.

Proprietary Funds. The Village has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer and marina operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water, Sewer and Marina funds, all of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Village's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund and Fire Fund.

Government-wide Financial Analysis

The first table presented on the next page is a summary of the government-wide Statement of Net Assets for the Village of Pentwater. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2008, the Village's net assets from governmental activities totaled \$1,664,157 (36%) and \$2,884,278 (64%) from business-type activities, creating a total government-wide net assets total of \$4,548,435.

Village of Pentwater

Management's Discussion and Analysis

In examining composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, furniture, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$541,844. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,884,278 in net assets and \$871,385 (30%) in unrestricted net assets. The Sewer Fund, Water Fund and Marina Fund unrestricted net assets (deficits) are \$673,201, \$265,427 and (\$67,243), respectively.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets and other assets	\$ 1,018,833	\$ 1,255,750	\$ 1,159,992	\$ 933,130	\$ 2,178,825	\$ 2,188,880
Capital assets	1,549,791	1,306,406	3,392,702	2,395,310	4,942,493	3,701,716
Total assets	2,568,624	2,562,156	4,552,694	3,328,440	7,121,318	5,890,596
Current liabilities	238,851	255,709	192,273	133,004	431,124	388,713
Noncurrent liabilities	665,616	714,997	1,476,143	405,000	2,141,759	1,119,997
Total liabilities	904,467	970,706	1,668,416	538,004	2,572,883	1,508,710
Net assets						
Invested in capital assets						
net of related debt	894,791	561,406	1,841,559	1,965,310	2,736,350	2,526,716
Restricted	227,522	334,915	171,334	167,155	398,856	502,070
Unrestricted	541,844	695,129	871,385	657,971	1,413,229	1,353,100
Total net assets	\$ 1,664,157	\$ 1,591,450	\$ 2,884,278	\$ 2,790,436	\$ 4,548,435	\$ 4,381,886

Capital assets increased for governmental activities primarily because the Village had capital additions of \$407,148 and depreciation of \$112,814 and a decrease in construction in progress of \$65,700. This resulted in an increase in invested in capital assets, net of related debt category of net assets. Capital assets increased for business-type activities because the Village had capital additions of \$1,183,652, depreciation of \$111,430 and a decrease in construction in progress of \$74,830. The business-type activities capital asset additions were paid with bond proceeds of \$1,146,143 and this resulted in a decrease in invested in capital assets, net of related debt category of net assets.

Village of Pentwater

Management's Discussion and Analysis

Governmental activities

Governmental activities increased by \$57,956 (3%) during the 2008 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Revenues and expenditures of governmental activities were fairly consistent for most categories. Property tax revenue is up to do growth in taxable values. Operating grants increased due to a federal fire training grant. Unrestricted investment earnings are down because of less cash invested. Public safety expenses are up because the police department's wages for full-time officers increased. Public works expenses decreased due to reduced purchases of public works safety supplies and equipment.

Business-type activities

At the end of the fiscal year, the net assets for business-type activities increased by \$93,842 or 3%. Three funds comprise the business-type activities. The Sewer Fund experienced an increase in net assets for the year totaling \$53,707. The Water Fund experienced an increase in net assets for the year totaling \$69,675 and the Marina Fund had a decrease in net assets of \$29,540.

Charges for services for business-type activities increased due to an increase in customer base from the completion of the DWRP project. Sewer expense decreased due to less professional services.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 279,491	\$ 251,636	\$ 657,279	\$ 499,842	\$ 936,770	\$ 751,478
Operating grants	261,727	168,411	-	-	261,727	168,411
General revenues						
Property taxes	807,406	775,455	-	-	807,406	775,455
Grants and contributions						
not restricted	76,845	78,006	-	-	76,845	78,006
Unrestricted investment						
earnings	40,477	47,417	42,700	32,802	83,177	80,219
Miscellaneous	81,281	51,654	-	-	81,281	51,654
Total revenues	1,547,227	1,372,579	699,979	532,644	2,247,206	1,905,223

Village of Pentwater

Management's Discussion and Analysis

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Expenses:						
General government	\$ 391,961	\$ 233,385	\$ -	\$ -	\$ 391,961	\$ 233,385
Public safety	466,465	408,616	-	-	466,465	408,616
Public works	449,049	480,012	-	-	449,049	480,012
Community and economic development	22,722	18,958	-	-	22,722	18,958
Culture and recreation	95,024	88,922	-	-	95,024	88,922
Interest on long-term debt	64,135	45,427	-	-	64,135	45,427
Sewer Fund	-	-	200,459	231,034	200,459	231,034
Water Fund	-	-	272,553	177,188	272,553	177,188
Marina Fund	-	-	133,040	116,409	133,040	116,409
Total expenses	<u>1,489,356</u>	<u>1,275,320</u>	<u>606,052</u>	<u>524,631</u>	<u>2,095,408</u>	<u>1,799,951</u>
Change in net assets						
before transfers	57,871	97,259	93,927	8,013	151,798	105,272
Transfers	<u>85</u>	<u>-</u>	<u>(85)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	57,956	97,259	93,842	8,013	151,798	105,272
Net assets - Beginning	<u>1,606,201</u>	<u>1,508,942</u>	<u>2,790,436</u>	<u>2,782,423</u>	<u>4,396,637</u>	<u>4,291,365</u>
Net assets - Ending	<u>\$ 1,664,157</u>	<u>\$ 1,606,201</u>	<u>\$ 2,884,278</u>	<u>\$ 2,790,436</u>	<u>\$ 4,548,435</u>	<u>\$ 4,396,637</u>

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$705,858. This number represents the unreserved fund balance of \$368,049 in the General Fund, \$79,558 in the Fire Fund and \$258,251 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance of \$56,752 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate advances of \$47,023 and debt service of \$9,729. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$762,610, which consists of a fund balance of \$415,072 in the General Fund, \$79,558 in the Fire Fund and \$267,980 in other governmental funds.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year 2008, the unreserved General Fund fund balance was \$368,049 and the total General Fund fund balance was \$415,072. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 34% of the General Fund expenditures.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets in the Sewer, Water and Marina Funds increased (decreased) by \$53,707, \$69,675 and (\$29,540), respectively. The result was an overall net increase in the proprietary funds of \$93,842.

General Fund Budget

During the current fiscal year, the Village made several amendments to its original budget. The most significant of those is listed below:

- Property taxes were decreased \$33,523, reflecting a change due to recalculation of expected taxable values multiplied by tax rates.
- Intergovernmental revenues – State were decreased by \$24,700, reflecting a change in estimated receipts.
- Village council budget was increased by \$26,415 for additional legal expenses.
- The clerks' budget was increased by \$14,854 to cover additional personnel costs.
- The original police department budget was decreased by \$35,935 to assist in balancing the Village General Fund budget
- The original DPW budget was decreased by \$20,601 reflecting a decrease in supplies expense.
- Capital outlay budgets were increased \$46,000 to reflect the costs of constructing the new restroom facilities

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

- Intergovernmental revenues - State was \$23,764 above the budgeted amount as expected revenues were underestimated.
- Council expenditures were \$18,860 more than budgeted because of additional legal expenses,
- Clerk expenditures were \$29,663 more than budgeted because contracted services were more than anticipated.
- DPW expenditures were \$26,171 less than budgeted because payroll expenses, retirement, operating supplies and equipment rental were all lower than anticipated.
- Parks expenditures were \$8,600 less than budgeted because equipment rental was less than anticipated.
- Capital Outlay expenditures were \$21,966 more than budgeted as the cost of constructing the new bathroom facilities was higher than expected.

Capital Asset Administration

The Village's investment in capital assets for its governmental and business-type activities as of March 31, 2008 totaled \$4,942,493 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture, vehicles and equipment.

Major capital asset events during the current fiscal year included the following:

- The Village completed the water system upgrade at a cost of \$1,164,148.
- The Fire Department purchased a fire trainer for \$247,800 and a generator for \$9,975.
- The Village purchased a mobile computer for the Police Department for \$2,750.
- The Village constructed restroom facilities in downtown at a cost of \$104,741.
- The Village DPW incurred costs related to the iron arsenic project of \$16,750, water pumps for \$11,804, meter reading guns for \$7,700 and building improvements of \$3,500.
- The Equipment Fund purchased a new back hoe at a cost of \$13,420 and a brush hog for \$5,300.
- The Village incurred engineering costs in preparation for a wastewater system upgrade of \$66,810.

Capital Assets

(Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 34,699	\$ 34,699	\$ 254,190	\$ 254,190	\$ 288,889	\$ 288,889
Construction in progress	-	65,700	83,075	157,905	83,075	223,605
Land improvements	37,831	40,631	-	-	37,831	40,631
Buildings and improvements	512,816	407,637	-	-	512,816	407,637
Equipment	940,358	735,934	-	-	940,358	735,934
Infrastructure	24,087	21,805	-	-	24,087	21,805
Sewer system	-	-	1,471,160	1,529,831	1,471,160	1,529,831
Water system	-	-	1,478,871	331,730	1,478,871	331,730
Marina	-	-	105,406	121,654	105,406	121,654
Total	<u>\$ 1,549,791</u>	<u>\$ 1,306,406</u>	<u>\$ 3,392,702</u>	<u>\$ 2,395,310</u>	<u>\$ 4,942,493</u>	<u>\$ 3,701,716</u>

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Village of Pentwater

Management's Discussion and Analysis

Long-Term Debt

At the end of the 2008 fiscal year, the Village had total outstanding debt of \$2,227,429 consisting of general obligation bonds, revenue bonds and compensated absences. The general obligation debt of \$1,801,143 is backed by the full-faith and credit of the Village. The revenue bonds of \$405,000 are anticipated to be repaid through the revenues generated from the Sewer Fund.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$ -	\$ -	\$ 405,000	\$ 430,000	\$ 405,000	\$ 430,000
General obligation bonds	655,000	745,000	1,146,143	-	1,801,143	745,000
Compensated absences	16,963	16,345	4,323	4,823	21,286	21,168
Total	<u>\$ 671,963</u>	<u>\$ 761,345</u>	<u>\$ 1,555,466</u>	<u>\$ 434,823</u>	<u>\$ 2,227,429</u>	<u>\$ 1,196,168</u>

The Village's total debt increased by \$1,031,261 during the fiscal year. This increase was due general obligation bond proceeds for the water system upgrade in addition to the normal debt payoffs as provided for in the fiscal year 2008 budget.

Additional information on the Village's long-term debt can be found in Note G of the "Notes to Financial Statements" of this report.

General Economic Overview

The Village has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Village's General Fund has three major revenue sources – state revenue sharing, property tax revenue and garbage collection fees. These three sources comprised over 93% of the General Fund revenue sources. In fiscal 2009, state revenue sharing is expected to remain stagnant or possibly decrease. This is dependent on the financing situation at the State of Michigan. Property tax revenues are expected to increase as the new construction in the Village begins to be placed on the tax rolls. Garbage collection fees are expected to remain the same unless the garbage collection company imposes a fuel surcharge forcing the Village to raise rates to cover the additional expenses.

Expenditures are expected increase due to contract settlements with the DPW department and police department patrolmen. Insurance premiums are also expected to increase as well as repair and maintenance expenses because of the aging Village buildings and parks. In addition, the Village is anticipating the overall cost of living increases to affect all expenses.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Pentwater, 327 South Hancock Street, Pentwater, MI 49449, (231) 869-8301.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 5, 2008

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pentwater's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of March 31, 2008 and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date September 5, 2008 on our consideration of the Village of Pentwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - viii and 28 - 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

Village Manager and Members
of the Village Council
September 5, 2008
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pentwater's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Village of Pentwater
STATEMENT OF NET ASSETS
March 31, 2008

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 869,745	\$ 897,734	\$ 1,767,479
Receivables	24,681	119,780	144,461
Due from other governmental units	77,384	-	77,384
Internal balances	47,023	(47,023)	-
Inventories	-	17,917	17,917
Prepaid items	-	250	250
Total current assets	1,018,833	988,658	2,007,491
NONCURRENT ASSETS			
Restricted assets	-	171,334	171,334
Capital assets, net			
Nondepreciable	34,699	337,265	371,964
Depreciable	1,515,092	3,055,437	4,570,529
Total noncurrent assets	1,549,791	3,564,036	5,113,827
Total assets	2,568,624	4,552,694	7,121,318
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	67,769	91,213	158,982
Deferred revenue	164,735	21,737	186,472
Bonds and other obligations, due within one year	6,347	79,323	85,670
Total current liabilities	238,851	192,273	431,124
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	665,616	1,476,143	2,141,759
Total liabilities	904,467	1,668,416	2,572,883
NET ASSETS			
Invested in capital assets, net of related debt	894,791	1,841,559	2,736,350
Restricted for:			
Streets and highways	217,793	-	217,793
Debt service	9,729	171,334	181,063
Unrestricted	541,844	871,385	1,413,229
Total net assets	\$ 1,664,157	\$ 2,884,278	\$ 4,548,435

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF ACTIVITIES
For the year ended March 31, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities						
General government	\$ 391,961	\$ 34,235	\$ 919	\$ (356,807)	\$ -	\$ (356,807)
Public safety	466,465	153,683	161,070	(151,712)	-	(151,712)
Public works	449,049	82,186	99,738	(267,125)	-	(267,125)
Community and economic development	22,722	-	-	(22,722)	-	(22,722)
Culture and recreation	95,024	9,387	-	(85,637)	-	(85,637)
Interest on long-term debt	64,135	-	-	(64,135)	-	(64,135)
Total governmental activities	1,489,356	279,491	261,727	(948,138)	-	(948,138)
Business-type activities						
Sewer	200,459	248,299	-	-	47,840	47,840
Water	272,553	305,909	-	-	33,356	33,356
Marina	133,040	103,071	-	-	(29,969)	(29,969)
Total business-type activities	606,052	657,279	-	-	51,227	51,227
Total government	<u>\$ 2,095,408</u>	<u>\$ 936,770</u>	<u>\$ 261,727</u>	(948,138)	51,227	(896,911)
General revenues						
Property taxes, levied for:						
General purposes				713,713	-	713,713
Specific purposes				93,693	-	93,693
Grants and contributions not restricted to specific programs				76,845	-	76,845
Unrestricted investment earnings				40,477	42,700	83,177
Miscellaneous				81,281	-	81,281
Transfers				85	(85)	-
Total general revenues				1,006,094	42,615	1,048,709
Change in net assets				57,956	93,842	151,798
Net assets at April 1, 2007				1,606,201	2,790,436	4,396,637
Net assets at March 31, 2008				<u>\$ 1,664,157</u>	<u>\$ 2,884,278</u>	<u>\$ 4,548,435</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
BALANCE SHEET
Governmental Funds
March 31, 2008

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 349,681	\$ 225,863	\$ 249,280	\$ 824,824
Accounts receivable	24,281	400	-	24,681
Due from other governmental units	38,050	15,451	23,883	77,384
Advances to other funds	47,023	-	-	47,023
Total assets	\$ <u>459,035</u>	\$ <u>241,714</u>	\$ <u>273,163</u>	\$ <u>973,912</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 32,747	\$ 1,962	\$ 4,254	\$ 38,963
Accrued liabilities	7,245	-	-	7,245
Customer deposits	-	-	359	359
Deferred revenue	3,971	160,194	570	164,735
Total liabilities	43,963	162,156	5,183	211,302
Fund balances				
Reserved for:				
Advances	47,023	-	-	47,023
Debt service	-	-	9,729	9,729
Unreserved				
Designated for improvements	-	-	5,620	5,620
Undesignated, reported in				
General Fund	368,049	-	-	368,049
Special revenue funds	-	79,558	252,631	332,189
Total fund balances	415,072	79,558	267,980	762,610
Total liabilities and fund balances	\$ <u>459,035</u>	\$ <u>241,714</u>	\$ <u>273,163</u>	\$ <u>973,912</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2008

Total fund balance—governmental funds	\$	762,610
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 2,162,921	
Accumulated depreciation	<u>(799,058)</u>	1,363,863

Accrued interest in governmental activities is not reported in the governmental funds.		(21,200)
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Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds payable	(655,000)	
Compensated absences	<u>(15,617)</u>	(670,617)

Internal service funds are used by management to charge the costs of equipment used to
individual funds. The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

		<u>229,501</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,664,157</u></u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2008

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 632,282	\$ -	\$ 175,124	\$ 807,406
Licenses and permits	3,921	-	-	3,921
Intergovernmental revenues				
Federal	-	161,070	-	161,070
State	77,764	-	99,738	177,502
Charges for services	98,824	153,440	5,677	257,941
Fines and forfeitures	6,508	-	-	6,508
Investment earnings	21,750	4,943	12,909	39,602
Other	27,314	64,160	5,617	97,091
Total revenues	868,363	383,613	299,065	1,551,041
EXPENDITURES				
Current				
General government	338,999	-	-	338,999
Public safety	264,226	130,810	-	395,036
Public works	249,203	-	191,932	441,135
Community and economic development	23,228	-	-	23,228
Culture and recreation	100,613	-	-	100,613
Other governmental functions	-	-	34,602	34,602
Debt service				
Principal	-	-	90,000	90,000
Interest and fees	-	-	65,335	65,335
Capital outlay	100,966	201,200	18,256	320,422
Total expenditures	1,077,235	332,010	400,125	1,809,370
Excess of revenues over (under) expenditures	(208,872)	51,603	(101,060)	(258,329)
OTHER FINANCING SOURCES (USES)				
Transfers in	15,085	-	-	15,085
Transfers out	-	-	(15,000)	(15,000)
Total other financing sources (uses)	15,085	-	(15,000)	85
Net change in fund balances	(193,787)	51,603	(116,060)	(258,244)
Fund balances at April 1, 2007	608,859	27,955	384,040	1,020,854
Fund balances at March 31, 2008	\$ 415,072	\$ 79,558	\$ 267,980	\$ 762,610

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended March 31, 2008

Net change in fund balances—total governmental funds \$ (258,244)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (88,491)	
Capital outlay	<u>322,726</u>	234,235

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		90,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		1,200
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(618)
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The internal service fund is used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>(8,617)</u>
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Change in net assets of governmental activities		<u>\$ 57,956</u>
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The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF NET ASSETS
Proprietary Funds
March 31, 2008

ASSETS

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
CURRENT ASSETS					
Cash and investments	\$ 663,910	\$ 222,673	\$ 11,151	\$ 897,734	\$ 44,920
Accounts receivable	59,532	60,248	-	119,780	-
Inventories	-	17,917	-	17,917	-
Prepaid items	-	250	-	250	-
Total current assets	723,442	301,088	11,151	1,035,681	44,920
NONCURRENT ASSETS					
Restricted assets	171,334	-	-	171,334	-
Capital assets					
Land	2,196	-	251,994	254,190	-
Plants and systems	2,631,895	1,948,496	-	4,580,391	-
Building and improvements	253,360	217,989	146,419	617,768	-
Equipment	64,218	42,537	160,806	267,561	438,314
Docks	-	-	173,208	173,208	-
Construction in progress	83,075	-	-	83,075	-
Less accumulated depreciation	(1,478,313)	(730,151)	(375,027)	(2,583,491)	(252,386)
Net capital assets	1,556,431	1,478,871	357,400	3,392,702	185,928
Total noncurrent assets	1,727,765	1,478,871	357,400	3,564,036	185,928
Total assets	2,451,207	1,779,959	368,551	4,599,717	230,848
LIABILITIES AND NET ASSETS (DEFICITS)					
CURRENT LIABILITIES					
Accounts payable	35,336	31,741	9,591	76,668	-
Accrued liabilities	12,910	1,635	-	14,545	-
Deferred revenue	-	-	21,737	21,737	-
Bonds and other obligations, due within one year	26,995	52,285	43	79,323	1,347
Total current liabilities	75,241	85,661	31,371	192,273	1,347
NONCURRENT LIABILITIES					
Advances from other funds	-	-	47,023	47,023	-
Bonds and other obligations, less amounts due within one year	380,000	1,096,143	-	1,476,143	-
Total noncurrent liabilities	380,000	1,096,143	47,023	1,523,166	-
Total liabilities	455,241	1,181,804	78,394	1,715,439	1,347
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	1,151,431	332,728	357,400	1,841,559	185,928
Restricted for debt service	171,334	-	-	171,334	-
Unrestricted	673,201	265,427	(67,243)	871,385	43,573
Total net assets	\$ 1,995,966	\$ 598,155	\$ 290,157	\$ 2,884,278	\$ 229,501

The accompanying notes are an integral part of this statement

Village of Pentwater
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended March 31, 2008

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
OPERATING REVENUES					
Charges for services	\$ 248,299	\$ 305,909	\$ 103,071	\$ 657,279	\$ 96,523
OPERATING EXPENSES					
Administration	47,401	64,842	-	112,243	-
Operations	56,765	167,624	116,791	341,180	81,691
Depreciation	70,474	24,707	16,249	111,430	24,323
Total operating expenses	174,640	257,173	133,040	564,853	106,014
Operating income (loss)	73,659	48,736	(29,969)	92,426	(9,491)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	36,221	5,965	514	42,700	874
Interest expense	(25,819)	(15,380)	-	(41,199)	-
Total nonoperating revenue (expenses)	10,402	(9,415)	514	1,501	874
Income (loss) before transfers	84,061	39,321	(29,455)	93,927	(8,617)
Transfers in	-	30,354	-	30,354	-
Transfers out	(30,354)	-	(85)	(30,439)	-
Change in net assets	53,707	69,675	(29,540)	93,842	(8,617)
Net assets at April 1, 2007	1,942,259	528,480	319,697	2,790,436	238,118
Net assets at March 31, 2008	\$ 1,995,966	\$ 598,155	\$ 290,157	\$ 2,884,278	\$ 229,501

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2008

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 246,835	\$ 278,269	\$ 72,839	\$ 597,943	\$ -
Receipts from interfund services provided	-	-	-	-	96,734
Payments to suppliers	(39,311)	(174,945)	(65,664)	(279,920)	(70,921)
Payments to employees	(31,078)	(51,249)	(41,271)	(123,598)	(11,090)
Net cash provided by (used for) operating activities	176,446	52,075	(34,096)	194,425	14,723
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds (net)	(30,354)	30,354	(85)	(85)	-
Net cash provided by (used for) noncapital financing activities	(30,354)	30,354	(85)	(85)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	-	1,146,143	-	1,146,143	-
Purchases of capital assets	(78,614)	(1,030,208)	-	(1,108,822)	(18,719)
Principal paid on capital debt	(25,000)	-	-	(25,000)	-
Interest paid on capital debt	(26,614)	(15,380)	-	(41,994)	-
Net cash provided by (used for) capital and related financing activities	(130,228)	100,555	-	143,535	(18,719)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	36,221	5,965	514	42,700	874
Net increase (decrease) in cash and investments	52,085	188,949	(33,667)	207,367	(3,122)
Cash and investments at April 1, 2007	783,159	33,724	44,818	861,701	48,042
Cash and investments at March 31, 2008	<u>\$ 835,244</u>	<u>\$ 222,673</u>	<u>\$ 11,151</u>	<u>\$ 1,069,068</u>	<u>\$ 44,920</u>
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 663,910	\$ 222,673	\$ 11,151	\$ 897,734	\$ 44,920
Restricted assets	171,334	-	-	171,334	-
	<u>\$ 835,244</u>	<u>\$ 222,673</u>	<u>\$ 11,151</u>	<u>\$ 1,069,068</u>	<u>\$ 44,920</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 73,659	\$ 48,736	\$ (29,969)	\$ 92,426	\$ (9,491)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	70,474	24,707	16,249	111,430	24,323
Change in assets and liabilities					
Receivables, net	(1,464)	(27,641)	-	(29,105)	211
Inventories	-	7,823	-	7,823	-
Prepaid items	779	604	404	1,787	285
Accounts payable	33,399	(3,122)	9,537	39,814	(485)
Accrued liabilities	(401)	968	(84)	483	(120)
Deferred revenue	-	-	(30,233)	(30,233)	-
Net cash provided by (used for) operating activities	<u>\$ 176,446</u>	<u>\$ 52,075</u>	<u>\$ (34,096)</u>	<u>\$ 194,425</u>	<u>\$ 14,723</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Pentwater (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected seven-member Village Council and is administered by a Village manager appointed by the Village Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Units

Downtown Development Authority. The Village appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt (if any) remains with the Village. The Authority is reported as a special revenue fund.

Pentwater Fire Department. The Village approves all board members and annual budgets for the Fire Department, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Fire Department is reported as a special revenue fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund provides fire protection services for the Village.

The Village reports the following three major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station and collection systems.

The Water Fund operates the Village's water distribution system.

The Marina Fund operates the Village marina.

Additionally, the Village reports the following fund types:

Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following September 15 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the Village totaled approximately \$79,500,000 of which approximately \$8,800,000 was captured by the Downtown Development Authority. The ad valorem taxes levied consisted of 8.0691, .5316, .3266, and 1.1940 mills for the Village's general operations, street improvements, friendship center, and improvement projects. These amounts are recognized in the respective General Fund, Local Street Fund, Friendship Center Fund, and Debt Service Fund with captured amounts shown in the DDA.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the Village chose to include only items acquired since April 1, 2004 as allowed by generally accepted accounting principles.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-40
Infrastructure	20-30
Land improvements	10-20
Equipment	3-10
Docks	10
Water system	10-50
Sewage system	20-100

Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. One-half of all unused accumulated sick leave is paid to employees who resign or retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds and debt service funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended March 31, 2008, actual expenditures exceeded appropriations for Village council by \$18,860, Village clerk by \$29,663 and capital outlay by \$21,966 in the General Fund. These overexpenditures were funded with available fund balance.

Fund Deficits

As of March 31, 2008, the Marina Fund had an unrestricted fund deficit of \$67,243. The deficit will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2008, \$1,704,718 of the Village's bank balance of \$2,004,718 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets

Restrictions are placed on assets by bond ordinance and Village Council action. At March 31, 2008, restricted cash and investments in the enterprise funds are restricted as follows:

Business-type activities

Sewer Fund

Bond and Interest Redemption Fund	\$ 44,000
Replacement Fund	62,838
Bonds reserve fund	<u>64,496</u>
	<u>\$ 171,334</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 34,699	\$ -	\$ -	\$ 34,699
Construction in progress	<u>65,700</u>	<u>-</u>	<u>65,700</u>	<u>-</u>
Total capital assets, not being depreciated	100,399	-	65,700	34,699
Capital assets, being depreciated:				
Land improvements	49,808	-	-	49,808
Buildings and improvements	665,816	124,991	-	790,807
Equipment	1,492,930	279,244	71,742	1,700,432
Infrastructure	<u>22,576</u>	<u>2,913</u>	<u>-</u>	<u>25,489</u>
Total capital assets, being depreciated	2,231,130	407,148	71,742	2,566,536

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
Governmental activities:—Continued				
Less accumulated depreciation:				
Land improvements	\$ 9,177	\$ 2,800	\$ -	\$ 11,977
Buildings and improvements	258,178	19,813	-	277,991
Equipment	742,246	89,570	71,742	760,074
Infrastructure	771	631	-	1,402
Total accumulated depreciation	<u>1,010,372</u>	<u>112,814</u>	<u>71,742</u>	<u>1,051,444</u>
Total capital assets, being depreciated, net	<u>1,220,758</u>	<u>294,334</u>	<u>-</u>	<u>1,515,092</u>
Capital assets, net	<u>\$ 1,321,157</u>	<u>\$ 294,334</u>	<u>\$ 65,700</u>	<u>\$ 1,549,791</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 254,190	\$ -	\$ -	\$ 254,190
Construction in progress	157,905	66,810	141,640	83,075
Total capital assets, not being depreciated	412,095	66,810	141,640	337,265
Capital assets, being depreciated:				
Plants and systems	3,416,243	1,164,148	-	4,580,391
Buildings and improvements	618,492	-	724	617,768
Equipment	251,172	19,504	3,115	267,561
Docks	181,004	-	7,796	173,208
Total capital assets, being depreciated	4,466,911	1,183,652	11,635	5,638,928
Less accumulated depreciation:				
Plants and systems	1,814,234	72,045	-	1,886,279
Building and improvements	321,089	24,674	724	345,039
Equipment	234,390	5,399	3,115	236,674
Docks	113,983	9,312	7,796	115,499
Total accumulated depreciation	<u>2,483,696</u>	<u>111,430</u>	<u>11,635</u>	<u>2,583,491</u>
Total capital assets, being depreciated, net	<u>1,983,215</u>	<u>1,072,222</u>	<u>-</u>	<u>3,055,437</u>
Capital assets, net	<u>\$ 2,395,310</u>	<u>\$ 1,139,032</u>	<u>\$ 141,640</u>	<u>\$ 3,392,702</u>

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2008

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 10,971
Public safety	61,098
Public works	13,823
Culture and recreation	2,599
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	24,323
	<u>\$ 112,814</u>

Business-type activities:

Sewer	\$ 70,474
Water	24,707
Marina	16,249
	<u>\$ 111,430</u>

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of March 31, 2008, the General Fund has advanced \$47,023 to the Marina Fund to fund capital improvements.

Interfund transfers:

	Transfers in:		Total	Purpose
	General Fund	Water Fund		
Transfers out:				
Other governmental funds	\$ 15,000	\$ -	\$ 15,000	DDA
Sewer Fund	-	30,354	30,354	Public works
Marina Fund	85	-	85	Recreation
	<u>\$ 15,085</u>	<u>\$ 30,354</u>	<u>\$ 45,439</u>	

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivables	\$ -	\$ 4,541
Property taxes	<u>9,951</u>	<u>150,243</u>
Total deferred revenue for governmental funds	<u>\$ 9,951</u>	<u>\$ 154,784</u>

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2008.

	Balance April 1, 2007	Additions	Reductions	Balance March 31, 2008	Due within one year
Governmental activities:					
General obligation bonds	\$ 745,000	\$ -	\$ 90,000	\$ 655,000	\$ -
Compensated absences	<u>16,345</u>	<u>618</u>	<u>-</u>	<u>16,963</u>	<u>6,347</u>
Governmental activity long-term liabilities	<u>\$ 761,345</u>	<u>\$ 618</u>	<u>\$ 90,000</u>	<u>\$ 671,963</u>	<u>\$ 6,347</u>
Business-type activities:					
Revenue bonds	\$ 430,000	\$ -	\$ 25,000	\$ 405,000	\$ 25,000
General obligation bonds	-	1,146,143	-	1,146,143	50,000
Compensated absences	<u>4,823</u>	<u>-</u>	<u>500</u>	<u>4,323</u>	<u>4,323</u>
Business-type activity long-term liabilities	<u>\$ 434,823</u>	<u>\$ 1,146,143</u>	<u>\$ 25,500</u>	<u>\$ 1,555,466</u>	<u>\$ 79,323</u>

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:

General obligation bonds:

\$990,000 General Obligation bonds of 1996 due in annual installments of \$40,000 to \$100,000 through April 2017; plus interest at rates varying from 6% to 6.05%	\$ 655,000
Compensated absences	<u>16,963</u>
	<u>\$ 671,963</u>

Business-type activities:

General obligation bonds:

\$1,180,000 General Obligation bonds of 2007 due in annual installments of \$50,000 to \$70,000 through October 2027; plus interest at 2.25%	\$ 1,146,143
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Revenue bonds:

\$750,000 Sewage Disposal Junior Lien Revenue bonds of 1986 due in annual installments of \$25,000 through April 2025; plus interest at 6.38%	405,000
Compensated absences	<u>4,323</u>
	<u>\$ 1,555,466</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The Village was in compliance in all material respects with all the revenue bond ordinances at March 31, 2008.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for debt outstanding as of March 31, 2008 follows:

Year ending March 31,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2009	\$ -	\$ 40,933	\$ 75,000	\$ 38,121
2010	50,000	37,933	75,000	47,804
2011	55,000	34,783	75,000	45,148
2012	60,000	31,333	75,000	42,492
2013	70,000	27,433	75,000	39,836
2014-2018	420,000	66,774	405,000	158,271
2019-2023	-	-	420,000	87,828
2024-2028	-	-	351,143	25,565
	<u>\$ 655,000</u>	<u>\$ 239,189</u>	<u>\$ 1,551,143</u>	<u>\$ 485,065</u>

NOTE H—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE H—OTHER INFORMATION—Continued

Post-Retirement Health Care

The Village has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were two retired employees receiving benefits. The Village finances the Plan on a pay-as-you-go basis. For the year ended March 31, 2008, the Village's post-retirement health care cost under the Plan was approximately \$9,400.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Pentwater
327 S. Hancock Street
Pentwater, MI 49449

Funding Policy. Village employees contribute 3 percent of their earnings to the Plan. The Village is required to contribute at an actuarially-determined rate depending upon position from 6.71 to 10 percent of covered payroll.

Annual Pension Cost. For the year ended March 31, 2008, the Village's annual pension cost was approximately \$21,400 which the Village contributed. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.5 percent to 12.9 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a nine-year period.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Annual Pension Cost—Continued

Three-Year Trend Information

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
03/31/06	\$ 20,200	100 %	\$ -
03/31/07	28,300	100	-
03/31/08	21,400	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/03	\$ 905,151	\$ 958,795	\$ 53,644	94 %	\$ 348,741	16 %
12/31/04	951,218	1,045,535	94,317	91	285,803	27
12/31/05	986,674	1,049,877	63,203	94	372,379	22

NOTE J—COMMITMENTS

Subsequent to year end, the Village transferred all assets and accounting responsibilities of the Fire Fund to Pentwater Township.

The original reimbursement agreement between the Downtown Development Authority and the Village for the construction of new bathroom facilities near the Village Green was amended in the current year. The Downtown Development Authority has agreed to reimburse the Village approximately \$15,000 in the current year and \$10,000 per year over the next four years.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Pentwater
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 663,756	\$ 630,233	\$ 632,282	\$ 2,049
Licenses and permits	16,500	9,054	3,921	(5,133)
Intergovernmental revenues - State	78,700	54,000	77,764	23,764
Charges for services	88,825	92,357	98,824	6,467
Fines and forfeitures	3,700	-	6,508	6,508
Investment earnings	19,500	21,000	21,750	750
Other	15,500	17,574	27,314	9,740
Total revenues	886,481	824,218	868,363	44,145
EXPENDITURES				
Current				
General government				
Council	73,895	100,310	119,170	(18,860)
President	6,450	5,103	4,196	907
Manager	33,987	30,770	38,738	(7,968)
Clerk	111,336	126,190	155,853	(29,663)
Treasurer	4,650	1,825	2,826	(1,001)
Hall	14,150	11,360	13,312	(1,952)
Elections	3,646	1,722	2,040	(318)
Community promotion	5,338	5,338	2,864	2,474
Public safety				
Police department	306,094	270,159	264,226	5,933
Public works				
DPW	177,020	156,409	130,238	26,171
Street lighting	30,200	28,702	31,364	(2,662)
Sanitation	87,000	87,600	87,601	(1)
Community and economic development				
Planning commission	11,293	9,434	7,731	1,703
Zoning	14,970	13,914	15,497	(1,583)
Culture and recreation				
Recreation program	10,680	10,680	9,723	957
Parks	96,500	99,490	90,890	8,600
Capital outlay	33,000	79,000	100,966	(21,966)
Total expenditures	1,020,209	1,038,006	1,077,235	(39,229)
Excess of revenues over (under) expenditures	(133,728)	(213,788)	(208,872)	4,916
OTHER FINANCING SOURCES				
Transfers in	-	5,000	15,085	10,085
Net change in fund balance	\$ (133,728)	\$ (208,788)	(193,787)	\$ 15,001
Fund balance at April 1, 2007			608,859	
Fund balance at March 31, 2008			\$ 415,072	

Village of Pentwater
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Fire Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - Federal	\$ 161,070	\$ 161,070	\$ 161,070	\$ -
Charges for services	153,694	151,998	153,440	1,442
Investment earnings	1,000	2,500	4,943	2,443
Other	48,079	54,200	64,160	9,960
Total revenues	363,843	369,768	383,613	13,845
EXPENDITURES				
Current				
Public safety	127,996	134,570	130,810	3,760
Capital outlay	203,949	201,200	201,200	-
Total expenditures	331,945	335,770	332,010	3,760
Net change in fund balance	\$ <u>31,898</u>	\$ <u>33,998</u>	51,603	\$ <u>17,605</u>
Fund balance at April 1, 2007			<u>27,955</u>	
Fund balance at March 31, 2008			\$ <u>79,558</u>	

OTHER SUPPLEMENTAL INFORMATION

Village of Pentwater
COMBINING BALANCE SHEET
Other Governmental Funds
March 31, 2008

		Special Revenue					Debt Service
	Total other governmental funds	Major Street	Local Street	Downtown Development Authority	Friendship Center	Memorial Fund	Debt Service
ASSETS							
Cash and investments	\$ 249,280	\$ 173,225	\$ 26,431	\$ 10,189	\$ 27,060	\$ 5,620	\$ 6,755
Due from other governmental units	23,883	10,176	8,050	1,615	868	-	3,174
Total assets	<u>\$ 273,163</u>	<u>\$ 183,401</u>	<u>\$ 34,481</u>	<u>\$ 11,804</u>	<u>\$ 27,928</u>	<u>\$ 5,620</u>	<u>\$ 9,929</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 4,254	\$ -	\$ 89	\$ -	\$ 3,965	\$ -	\$ 200
Customer deposits	359	-	-	-	359	-	-
Deferred revenue	570	-	-	-	570	-	-
Total liabilities	5,183	-	89	-	4,894	-	200
Fund balances							
Reserved for:							
Debt service	9,729	-	-	-	-	-	9,729
Unreserved							
Designated for improvements	5,620	-	-	-	-	5,620	-
Undesignated	252,631	183,401	34,392	11,804	23,034	-	-
Total fund balances	267,980	183,401	34,392	11,804	23,034	5,620	9,729
Total liabilities and fund balances	<u>\$ 273,163</u>	<u>\$ 183,401</u>	<u>\$ 34,481</u>	<u>\$ 11,804</u>	<u>\$ 27,928</u>	<u>\$ 5,620</u>	<u>\$ 9,929</u>

Village of Pentwater
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended March 31, 2008

		Special Revenue					
	Total other governmental funds	Major Street	Local Street	Downtown Development Authority	Friendship Center	Memorial Fund	Debt Service
REVENUES							
Property taxes	\$ 175,124	\$ -	\$ 41,668	\$ 14,193	\$ 25,570	\$ -	\$ 93,693
Intergovernmental revenues - State	99,738	57,689	42,049	-	-	-	-
Charges for services	5,677	1,656	-	-	4,021	-	-
Investment earnings	12,909	7,835	1,083	568	1,025	147	2,251
Other	5,617	250	125	-	24	5,218	-
Total revenues	299,065	67,430	84,925	14,761	30,640	5,365	95,944
EXPENDITURES							
Current							
Public works	191,932	91,491	100,441	-	-	-	-
Other governmental functions	34,602	-	-	1,027	31,292	2,283	-
Debt service							
Principal	90,000	-	-	-	-	-	90,000
Interest and fees	65,335	-	-	-	-	-	65,335
Capital outlay	18,256	6,191	2,234	-	9,831	-	-
Total expenditures	400,125	97,682	102,675	1,027	41,123	2,283	155,335
Excess of revenues over (under) expenditures	(101,060)	(30,252)	(17,750)	13,734	(10,483)	3,082	(59,391)
OTHER FINANCING USES							
Transfers out	(15,000)	-	-	(15,000)	-	-	-
Net change in fund balances	(116,060)	(30,252)	(17,750)	(1,266)	(10,483)	3,082	(59,391)
Fund balances at April 1, 2007	384,040	213,653	52,142	13,070	33,517	2,538	69,120
Fund balances at March 31, 2008	\$ 267,980	\$ 183,401	\$ 34,392	\$ 11,804	\$ 23,034	\$ 5,620	\$ 9,729

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 5, 2008

Village Council
Village of Pentwater
Pentwater, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Pentwater's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Pentwater's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of the Village Council, management, others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESS

Recommendation 1: Bank reconciliations and reconciliation of cash and the general ledger should be prepared timely.

During our year end testing, we noted that the general checking and payroll checking accounts were not reconciled to the bank statements, and cash was not reconciled to the general ledger. Preparation of the reconciliations should be documented.

Preparation of timely bank reconciliations is critical to good internal control. Documentation by preparer and reviewer would strengthen the reconciliation process and reduce the potential for misstatement or fraud.

SIGNIFICANT DEFICIENCIES

Recommendation 2: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 3: Receivable and payable balances should be adjusted and/or recorded on the Village's system at year end.

During our detailed testing of account balances, we noted that both accounts receivable and accounts payable were not adjusted to be in agreement with detailed balances as of year end.

The performance of reconciliation at year end would increase the opportunity for accounts receivable and accounts payable activity to be properly recorded in the general ledger. In addition, utility billings accounts receivable should be reconciled to the general ledger on a regular basis throughout the year to provide further assurance that receivables and the related revenue balances are properly stated in interim financial statements.

Recommendation 4: Computer system passwords should be restricted and changed on a regular basis.

During our inquiry of management, we noted that office staff use the same passwords or are aware of each other's passwords for computer and software logins.

Requiring separate passwords would reduce the possibility of passwords being compromised and could reduce the possibility of inappropriate personnel having access to restricted files.

SIGNIFICANT DEFICIENCIES

Recommendation 5: All journal entries should have documented approval by an appropriate Village official.

During our testing, we noted that documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with documented approval of all journal entries would reduce the possibility of an inaccurate journal entry being made.

Recommendation 6: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Village should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Board and Management.

Recommendation 7: Internal control procedures should be adhered to when posting disbursement entries.

During our testing, we noticed several instances where procedures were not followed, causing incorrect postings and mathematical errors to the general ledger. There were several instances of invoices being paid without substantiation of receipt of the goods and services.

Following procedures would ensure that the general ledger accurately reflects the activities of the Village and reduce the potential for misstatement or fraud.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 5, 2008

Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the financial statements of the Village of Pentwater as of and for the year ended March 31, 2008 and have issued our report thereon dated September 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pentwater's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Pentwater's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 7, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Village Council
Village of Pentwater
September 5, 2008
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Village of Pentwater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village of Pentwater's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Village of Pentwater's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

Village of Pentwater
SCHEDULE OF FINDINGS AND RESPONSES
Year ended March 31, 2008

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: MATERIAL WEAKNESS – Bank Reconciliations

Criteria: Reconciling bank statements to the general ledger should be done timely.

Condition: Bank reconciliations were determined not to have been done in a timely manner at year end.

Cause: The client has not established a procedure to require timely bank reconciliations.

Effect: Preparation of timely bank reconciliations is critical to good internal control.

Recommendation: Timely bank reconciliations and comparison to the general ledger should be mandated.

Village Response: The Village agrees with the finding.

Fiscal 2008 Finding No. 2: Financial Statement Preparation Controls

Criteria: Organizations should have internal controls over the preparation of formal year end financial statements.

Condition: The Village has limited internal controls over the preparation of formal year end financial statements.

Cause: The Village is a small organization with limited resources and personnel.

Effect: Formal year end financial statements could have errors in required disclosures.

Recommendation: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Village Response: The Village agrees with the finding.

Village of Pentwater
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended March 31, 2008

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 3: Year End Receivable and Payable Procedures

Criteria: Receivable and payable general ledger balances should be in agreement with detailed balances as of year end.

Condition: Receivable and payable general ledger balances were not in agreement with detailed balances as of year end.

Cause: Client personnel did not record the adjustments necessary to have the general ledger and detailed account balances be in agreement.

Effect: The client records required year end adjustments.

Recommendation: Receivable and payable balances should be adjusted on/or recorded on the Village's system at year end.

Village Response: The Village agrees with the finding.

Fiscal 2008 Finding No. 4: Computer System Password Procedures

Criteria: Computer system passwords should be restricted and changed on a regular basis.

Condition: Client office staff use the same passwords or are aware of each others passwords and software logins.

Cause: Client management has not restricted use of passwords and has not required changing passwords on a regular basis.

Effect: Client office staff could login as another staff member and then perform erroneous or fraudulent activities.

Recommendation: Computer system passwords should be restricted and changed on a regular basis.

Village Response: The Village agrees with the finding.

Village of Pentwater
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended March 31, 2008

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No.5: Journal Entry Approval Documentation

Criteria: The review and approval of general ledger journal entries should be documented.

Condition: The review and approval of general ledger journal entries is not documented.

Cause: The client has not established a procedure to require documentation of review and approval of general ledger journal entries.

Effect: In the event of a request for documentation of the review and approval of general ledger journal entries, such documentation would not be available.

Recommendation: All journal entries should have documented approval by an appropriate Village official.

Village Response: The Village agrees with the finding.

Fiscal 2008 Finding No. 6: Internal Controls should be further segregated

Criteria: The Village should attempt to segregate duties.

Condition: The Village does not have sufficient staff to adequately segregate duties.

Cause: The Village bookkeeping department only has two employees.

Effect: Internal controls could be compromised without adequate segregation of duties.

Recommendation: The Village Council should actively monitor the accounting records.

Village Response: The Village agrees with the finding.

Fiscal 2008 Finding No. 7: Internal Controls should be adhered to when posting entries to the General Ledger.

Criteria: The Village should follow policy when posting entries.

Condition: Several entries were misposted or inaccurate because policy was not followed in closing entries.

Cause: The Village bookkeeping department did not follow approved closing policies.

Effect: The general ledger had incorrect entries, and several invoices were paid without adequate documentation of receipt.

Recommendation: Internal controls should be monitored and enforced.

Village Response: The Village agrees with the finding.